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SUBJECT: COMMISSIONER PIEBALGS OUTLINES THE EU'S ENERGY
SECURITY PLANS

11. (U) Summary. At an April 2 Brussels hearing on energy security organized by the European Parliament's Industry and Energy Committee, EU Energy Commissioner Andris Piebalgs outlined how the EU intends to ensure its energy security by: 1) organizing its external energy supply, 2) promoting energy efficiency, 3) managing its energy mix and 4) implementing its internal energy market. The Commissioner said he had fully taken on board all recommendations by the European Regulators Group for Electricity and Gas (ERGEG) with regard to the lessons learned from the latest Russia-Ukraine gas dispute. Piebalgs announced a new draft regulation on security of gas supply to be presented in June, mentioned that a call for projects to be funded under the EU economic recovery plan will be published in May, and said recovery funds should be committed to these projects by 2009/2010. He said the EU's energy security was not under the control of third countries: "Security of supply is in our hands." Piebalgs called the EU's internal energy market "our (the EU's) strength, not our weakness" and was very optimistic about EU energy security in the medium term. End Summary.

INCORPORATING LESSONS LEARNED FROM THE RUSSIA-UKRAINE CRISIS

12. (U) Commissioner Piebalgs announced a new draft Regulation on security of gas supply to be presented in June. He said the Commission was incorporating all of ERGEG's recommendations on "the lessons to be learned" from the Russia-Ukraine crisis into the new draft legislation, i.e. the need to: 1) improve coordination in national emergency planning, 2) set up regional coordination of network access, 3) improve gas interconnections between markets, 4) include emergency scenarios in infrastructure planning procedures and 5) increase transparency through monitoring and early warning. The Commissioner quoted from a letter (dated Feb. 10, 2009) that was sent to him by ERGEG's President John Mogg, who said that the disruption of gas supplies to Europe as a result of the Russia-Ukraine dispute had demonstrated "'the profound lack of transparency in gas flows and in emergency arrangements across the EU and beyond.'" "There was enough gas available in the EU, but it didn't go where it was needed, because the gas market was not transparent", Piebalgs said.

13. (U) The Commissioner told participants that the new legislation would enhance solidarity and responsibility in the EU's natural gas market. In this context, Piebalgs said: "it wouldn't be a bad idea to introduce the "N-1 rule" for the EU's natural gas market." (Note: The "N-1" rule is a provision in EU rules on the security of electricity supply. It states that the network should continue to function in the

event that any one individual failure has occurred in a specific part of the network. End Note.)

4 (U) Piebalgs said the EU's security of supply was not under the control of third countries: "Security of supply is in our hands." and he told participants to be "very optimistic" about EU energy security in the medium term. "In the short term, however, we will probably still have some challenges ahead of us." He called the EU's internal energy market "our (the EU's) strength, not our weakness." The Commissioner told parliamentarians to oppose the introduction of regulation that would oblige EU member states to hold minimum stocks of natural gas. He said such requirements would increase the cost of energy and would be an unnecessary burden on tax payers. If the market is well interconnected, well-regulated and transparent, the gas will flow, he added.

ENHANCING ENERGY SECURITY

15. (U) Piebalgs said that by 2020 the EU will depend on imports for at least 50 percent of its energy supply and that therefore diversification was needed. He not only stressed the need for diversification of supply through the development of alternative pipelines such as Nabucco, but emphasized liquefied natural gas (LNG) as "one of the best alternative options for diversification," stating "LNG gives us the most flexibility in case something happens." Throughout the hearing, various speakers stressed the importance of LNG supply for the EU's energy security. Dr. Fatih Birol, Chief Economist of the IEA, said there would be no shortage of LNG supply for Europe. Because of the development of unconventional gas sources (shale gas) in the U.S., American demand for LNG would be minimal for years to

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come. A number of speakers stated that, with limited investment, gas pipelines in the EU should be made "bi-directional", which would allow LNG terminals (i.e. in Spain or Greece) to supply Europe with gas whenever required.

TRANSIT: RUSSIA, NABUCCO, NORD STREAM, SOUTH STREAM

6 (U) Commissioner Piebalgs said the EU was ready to invest in transit infrastructure, provided the costs for transit would not be too high, the transit country would have a stable regime, and the energy market was transparent and well-functioning. Piebalgs also said he preferred investment in existing transit infrastructure, rather than in building new infrastructure, which would be much more expensive. When asked about the status of the Nabucco project, the Commissioner emphasized the need to ensure good relations between Azerbaijan and Turkmenistan. He described Turkey's "transit status issue" as "complicated" in view of Turkey's candidacy for EU membership and the fact that the EU had not yet opened Energy Chapter negotiations with Turkey. To ensure Nabucco's success, Piebalgs said "an attractive transit regime" was needed for the project.

17. (U) In response to questions about the EU's relations with Russia and the Nord Stream pipeline, the Commissioner said: "we need to look at it (EU-Russia relations) in all its complexity. Russians also have a view and they have a right to have one. Russia favors Nord Stream, because they haven't had good relations with Belarus or Ukraine. So they have a point! And we need to take their views into consideration." On the construction of the Nord Stream pipeline, Piebalgs thought it "realistic" that the first stage of the pipeline would be operational by 2012, provided the countries affected would agree with the environmental study they had recently received. Lazlo Varro, Senior Vice President of the Hungarian MOL group, a private investor in the Nabucco pipeline, told participants that the EU should impose anti-dumping measures on the Nord Stream and South Stream projects, because Russian Prime Minister Putin had promised both projects unlimited funding. "We are competing against pipelines that get unlimited funding from a third country. If this would happen with Chinese toilet paper, we would already have anti-dumping measures in place!" he said.

INVESTMENT IN ENERGY INFRASTRUCTURE UNDER THE EU RECOVERY PLAN

18. (U) With regard to the 4 billion euros the EU intends to spend on energy projects as part of its economic recovery package, Piebalgs said a call for proposals will be released in May and funds should be committed by 2009/2010. Green MEP Claude Turmes (Luxembourg) and Varro strongly criticized projects to be selected under the package. Varro said the EU was going to pay off the energy companies that five years ago had refused to build cross-border interconnections to reinforce their position on national energy markets. Turmes said: "the Commission is bribing the same multinationals who have watered down the 3rd energy package."

ENERGY EFFICIENCY, ALTERNATIVE ENERGY SOURCES

19. (U) When speaking about the importance of energy efficiency, Commissioner Piebalgs said: "Growth in energy consumption is like poison in terms of climate change." He suggested that the same amount of funding that is currently invested in the construction of new nuclear plants be invested in energy efficiency. With regard to the EU's energy mix, Piebalgs said the EU should not judge whether a source of energy is good or bad. "Energy is used for the public benefit. We should simply lay down conditions for the different sources of energy, like setting a price for CO2 emissions," he said.

110. (U) Claude Turmes told participants that at least 20 percent of Europe's gas supply could come from biomass. With regard to energy efficiency, Turmes stressed that massive renovation of Eastern European buildings could lead to huge gains in terms of Europe's security of gas supply. Varro illustrated this point by explaining how a Communist-style building block in Hungary, after a pilot renovation project, required 85 percent less natural gas for its heating.

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